

# ZAMBIA BUDGET 2013



# TABLE OF CONTENTS

<b>1.0</b>	<b>BUDGET OVERVIEW</b>	<b>1</b>
<b>2.0</b>	<b>BUDGET HIGHLIGHTS FOR 2013</b>	<b>2</b>
2.1	Direct Taxes	2
2.2	Value Added Tax	2
2.3	Customs and Excise	2
2.4	Property Transfer Tax	2
<b>3.0</b>	<b>DIRECT TAXES</b>	<b>3</b>
3.1	Personal Tax Rates	3
3.2	Removal of Tax on Bank Interest Paid to Individuals	3
3.3	Removal of Medical Levy	3
3.4	Taxation of Organic Fertilizer	3
3.5	Withholding Tax on Management Fees	3
3.6	Withholding Tax on Royalties	3
3.7	Turnover Tax Threshold	4
3.8	Withholding Tax in Multi-Facility Economic Zones	4
3.9	Dividends Paid by Companies Offered Incentives Under the Zambia Development Agency Act (ZDA)	4
3.10	Income Tax Incentives for Businesses Operating in a Priority Sector	4
3.11	Paye Refunds	4
3.12	Tax Exchange Agreements	4
3.13	Improvement Allowance	4
3.14	Collective Investment Schemes	4
<b>4.0</b>	<b>VALUE ADDED TAX ACT</b>	<b>5</b>
4.1	Rate of VAT	5
4.2	Increase of VAT Registration Threshold	5
4.3	Zero Rating of the Supply of Tourist Guiding Services	5
4.4	Extension of Zero Rating of Adventure Tourism	5
4.5	Zero Rating of Wheat and Bread	5
4.6	Standard Rating of Plastic Polymer Granules and Liquid Polymers, Polypropylene Woven Bags and BLock Woven Bags	5
4.7	Standard Rating of the Supply and Import of Goods and Services	5
4.8	Housekeeping Measures	5

<b>5.0</b>	<b>CUSTOMS AND EXCISE</b>	<b>7</b>
5.1	Removal of Customs Duty	7
5.2	Suspension of Duty on Sports Equipment	8
5.3	Suspension of Duty on Selected New Motor Vehicles and Goods in the Tourism Sector	8
5.4	US \$1,000 Tax Rebate on Accompanied and Unaccompanied Imported Personal Effects	8
5.5	15% Increase on Selected Products Used in the Manufacture of Roofing Sheets	8
5.6	Increase from Zero to 25% on Iron or Non-Alloy Steelflat Rolled Products	8
5.7	Increase of Duty from Zero to 15% on Multiple or Cabled Yarn (Knitting Wools) of Synthetic Fibres Not for Retail Use	9
5.8	Border Posts	9
5.9	Locally Manufactured Equipment	9
5.10	Weighbridge Reports	9
5.11	Approved Organisations Providing Development Assistance to Government	9
5.12	ZDA Incentives for Machines and Equipment	9
5.13	Simplified Trade Regime	9
5.14	ZDA Incentives	9
5.15	Copper Concentrate Duty Remission	10
5.16	Public Benefit Organisations (PBOs)	10
5.17	Cross Cutting Measures	10
<b>6.0</b>	<b>PROPERTY TRANSFER TAX (PTT)</b>	<b>11</b>
6.1	The Transfer or Sale of a Mining Right	11
6.2	Groups of Companies	11
<b>7.0</b>	<b>INCOME TAX AMENDMENTS IN THE MINING SECTOR</b>	<b>12</b>
7.1	Capital Allowances	12
7.2	Transfer Pricing on Interest Payments	12

# "DELIVERING INCLUSIVE DEVELOPMENT AND SOCIAL JUSTICE"



## ► 1.0 BUDGET OVERVIEW

The October 2012 Zambia Budget Address for the year 1 January 2013 to 31 December 2013 was delivered to the National Assembly by the Minister of Finance and National Planning, Honorable Alexander B. Chikwanda, MP on Friday 12 October 2012.

The theme for this year's budget is, "DELIVERING INCLUSIVE DEVELOPMENT AND SOCIAL JUSTICE"

This Government has committed to raising the quality of life for all and is determined to deliver on its promise to put "more money in people's pockets".

The aim of the Budget is for "sustainable and inclusive growth" with a focus on the anticipated benefits of development being more equitably distributed. In this regard the Government intends to focus on sectors with high employment growth potential. The four main areas which have been prioritized are agriculture, tourism, manufacturing and infrastructure development.

The year to date has seen the introduction of a Statutory Instrument to ensure that all domestic transactions are carried out in Kwacha, Zambia's legal tender. In addition a policy decision was taken to rebase the Kwacha from 1 January 2013.

The Government's financial policy will be to maintain low inflation of not more than 6%. It is anticipated that a flexible exchange rate regime will continue and that the stability of the financial sector will be further enhanced by the increased nominal capital requirement for banks.

With increased expenditure on education and health, as well as energy and transport, which will be funded by the Eurobond proceeds, and other public services, the government anticipates achieving its vision of improving the quality of life for all Zambians thus the theme "Delivering inclusive development and social justice".





**"MORE MONEY IN  
PEOPLE'S POCKETS"**

## ► **2.0 BUDGET HIGHLIGHTS FOR 2013**

### **2.1 DIRECT TAXES**

- PAYE exempt threshold increased from K2,000,000 to K2,200,000 per month.
- Abolition of the Medical Levy.
- Turnover Tax threshold will increase to K800,000 p.a.
- No Withholding Tax on bank interest paid to individuals.
- Withholding Tax on management fees paid to non-residents will increase to 20%
- Capital allowances in the mining sector reduced to 25% p.a.

### **2.2 VALUE ADDED TAX**

- Wheat and bread to be zero-rated.
- The supply of tourist guiding services to be zero-rated.

### **2.3 CUSTOMS & EXCISE**

- Suspension of customs duty on certain goods in the tourism industry until 31 December 2013.
- Customs Duty removed on railway infrastructure.

### **2.4 PROPERTY TRANSFER TAX**

- Property Transfer Tax on the transfer or sale of mining rights payable at 10%.

# THE BUDGET IN DETAIL

## ► 3.0 DIRECT TAXES

All of the following measures will take effect from 1 January 2013.

### 3.1 PERSONAL TAX RATES

The exempt threshold for PAYE has been increased from K2,000,000 per month to K2,200,000 per month.



Income bands per annum	Income bands per month	Tax rate (%)
First K26,400,000	First K2,200,000	0
Next K9,600,000	Next K800,000	25
Next K34,800,000	Next K2,900,000	30
Balance over K70,800,000	Balance over K5,900,000	35

The pension contribution qualifying for tax relief has been increased to K255,000 per month.

### 3.2 REMOVAL OF TAX ON BANK INTEREST PAID TO INDIVIDUALS

Withholding tax on interest earned by individuals from savings or deposit accounts held with financial institutions such as banks and building societies has been removed.

### 3.3 REMOVAL OF MEDICAL LEVY

The medical levy which is charged on interest earned on savings or deposit accounts, treasury bills, government bonds or other financial instruments has been abolished.

### 3.4 TAXATION OF ORGANIC FERTILIZER

The manufacture of organic fertilizer will be taxed at 15% to bring it into line with the taxation of chemical fertilizer.

### 3.5 WITHHOLDING TAX ON MANAGEMENT FEES

The payment of management and consultancy fees to non-residents will be subject to an increased rate of withholding tax of 20%.

### 3.6 WITHHOLDING TAX ON ROYALTIES

The payment of royalties to non-residents will be subject to an increased rate of withholding tax of 20%.



## “TURNOVER TAX THRESHOLD K800 MILLION”

### 3.7 TURNOVER TAX THRESHOLD

The turnover tax threshold has been increased significantly from K200,000,000 p.a. to K800,000,000 p.a.

### 3.8 WITHHOLDING TAX IN MULTI-FACILITY ECONOMIC ZONES

Payments of management and consultancy fees and interest made to non-resident contractors by a person operating in a Multi-Facility Economic Zone (MFEZ) will be subject to withholding tax at 20%. Previously they had a five year tax incentive reducing the WHT to nil.

### 3.9 DIVIDENDS PAID BY COMPANIES OFFERED INCENTIVES UNDER THE ZAMBIA DEVELOPMENT AGENCY ACT (ZDA).

Businesses operating in priority sectors declared under the ZDA Act are entitled to pay dividends without WHT for a period of five years. The five year period will commence from the date of commencement of business operations and not from the date of the first declaration of dividends as was the case previously.

### 3.10 INCOME TAX INCENTIVES FOR BUSINESSES OPERATING IN A PRIORITY SECTOR

Businesses operating in a priority sector, MFEZ or industrial park are entitled to income tax incentives under the ZDA Act. The tax relief available is for five years and the effective date on which the five years comes into force will be the commencement date of operations of the

approved investment. Previously the effective date was from when profits are first declared.

In addition a further amendment to the ZDA Act will ensure that stricter guidelines are adhered to when a sector is declared as a priority sector or an area is declared as an MFEZ or an industrial park. An amendment will also be made for the removal of the tax incentives where a business fails to fulfill its employment creation pledge.

### 3.11 PAYE REFUNDS

Claims for PAYE refunds should be made within six years from the end of the charge year to which they relate.

In addition the PAYE monthly remittance card will be reclassified as a monthly return.

### 3.12 TAX EXCHANGE AGREEMENTS

The Income Tax Act will be amended to provide a legal basis for the Zambian government to exchange tax information with other tax jurisdictions.

### 3.13 IMPROVEMENT ALLOWANCE

Only businesses operating in an MFEZ or an industrial park will be eligible to claim improvement allowance.

### 3.14 COLLECTIVE INVESTMENT SCHEMES

Collective investment schemes such as unit trusts will be exempt from Income Tax.



## **"VAT REGISTRATION THRESHOLD K800 MILLION"**

# **► 4.0 VALUE ADDED TAX ACT**

## **4.1 RATE OF VAT**

The VAT rate remains unchanged at 16% million.

All of the following measures will take effect from 1 January 2013.

## **4.2 INCREASE OF VAT REGISTRATION THRESHOLD**

The threshold at which businesses are required to register for VAT has been increased from K200,000,000 to K800,000,000.

## **4.3 ZERO RATING OF THE SUPPLY OF TOURIST GUIDING SERVICES**

This aims to harmonise the treatment of tour guide services for VAT purposes with other zero-rated tourism products that are packaged with tour guide services.

## **4.4 EXTENSION OF ZERO RATING OF ADVENTURE TOURISM**

Currently, taxation of adventure tourism activities is discriminatory. The new rating is applicable to both local and foreign visitors for licensed operators.

## **4.5 ZERO RATING OF WHEAT AND BREAD**

This aims to reduce the cost of bread and enhance competitiveness of local wheat and wheat based products.

## **4.6 STANDARD RATING OF PLASTIC POLYMER GRANULES AND LIQUID POLYMERS, POLYPROPYLENE WOVEN BAGS AND BLOCK WOVEN BAGS**

Producers of the above products will be able to claim input tax.

## **4.7 STANDARD RATING OF THE SUPPLY AND IMPORT OF GOODS AND SERVICES**

Zero-rating of supplies to the developers of MFEZs (Multi-Facility Economic Zones) and industrial parks will be limited in an effort to eliminate distortions and unfair competition among businesses offering similar products to consumers.

## **4.8 HOUSEKEEPING MEASURES**

### **4.8.1 INPUT VAT CLAIMS**

The period in which Value Added Tax claims documents can be used will be reduced from 12 months to 6 months.

The change is intended to streamline tax administration and reduce the risk of tax fraud.

### **4.8.2 REQUIREMENT TO SUBMIT OUTPUT TAX SCHEDULES**

It will become mandatory for suppliers dealing in taxable supplies to submit output Tax Schedules for Supplies made.





## “RATIONALISATION OF TAX INCENTIVES FOR EMPLOYMENT CREATION”

### 4.8.3 REQUIREMENT FOR PRINTED TAX INVOICES

The amendment will provide for the approval of accounting packages or software rather than the requirement to print tax invoices only by approved printers.

### 4.8.4 VAT APPEALS AND OBJECTIONS

Provision will be made for procedures by which taxpayers can make objections and appeals on VAT related matters. This applies to cases where taxpayers are not satisfied with tax assessments or audits in the VAT legislation.

### 4.8.5 AMENDMENT OF THE VAT REGULATIONS

The VAT regulations refer to an “individual” which implies that this does not include an entity as well. An amendment will be made such that an entity is not expected to remit output VAT on donated supplies by making reference to a “person” and not to an “individual”.

### 4.8.6 VAT RELIEF ON NON-COMMERCIAL IMPORTATIONS

The First Schedule of the VAT Exemption Act will be amended to limit eligibility for VAT relief at importation to non-commercial transactions.

### 4.8.7 EXCHANGE OF TAX INFORMATION WITH OTHER JURISDICTIONS

The Value Added Tax Act will be amended to enable the Republic of Zambia to exchange tax information with other jurisdictions.

### 4.8.8 ZERO-RATING OF SUPPLIES FOR PUBLIC BENEFIT ORGANISATIONS

The provision for zero-rating supplies for Public Benefit Organisations (PBOs) is to be aligned with the Customs and Excise General Regulations.

### 4.8.9 ZERO-RATING OF ELECTRONIC LEARNING MATERIALS

The VAT Zero-schedule will include electronic learning materials. This measure is intended to cater for technological advances in the education sector.

### 4.8.10 CORRECTION OF ERROR IN THE EXEMPTION SCHEDULE

The typographical error in the Principal Exemption Order under Group 6[Conveyance of Real Property] part (b) will change to: “the sale or lease of domestic buildings, other than development of dwelling houses for sale;” The intention of the law is to exempt the “sale or lease” of domestic buildings and not the “sale of lease” as currently stated in the law.



**"PROMOTING INCLUSIVE GROWTH AND DEVELOPMENT THROUGH EMPLOYMENT CREATION"**

## ► 5.0 CUSTOMS AND EXCISE

All of the following measures will take effect from 1 January 2013.

### **5.1 REMOVAL OF CUSTOMS DUTY ON ALL OF THE FOLLOWING:**

#### **5.1.2 MECHANICAL, ELECTRICAL AND MEDICAL TOOLS, PLANT MACHINERY AND EQUIPMENT**

Duty from engines and cranes of all types has been removed, as well as conveyor belts, machines for cutting, grinding, polishing, drilling and welding, vacuum and liquid pumps and sprayers of all types.

#### **5.1.3 AUTOMATIC DATA PROCESSING MACHINES, MAGNETIC OR OPTICAL READERS AND MACHINES FOR TRANSCRIBING AND PROCESSING DATA**

#### **5.1.4 WIND POWER ENGINES, GAS STOVES AND ELECTRICAL CAPACITY**

This measure is the government's response to the challenges faced in the supply of electrical power.

#### **5.1.5 HEALTH AND VETERINARY EQUIPMENT AND TOOLS**

Cameras specially designed for medical or surgical examination of internal organs; Electro-cardiographs; Ultrasonic scanning and magnetic

resonance imaging apparatus; Dental drill engines, dentures, bone reconstruction cement; and instruments and appliances used in dental science are all now exempt from duty.

#### **5.1.6 CARBONATED BEVERAGES AND PACKED DRINKING WATER**

Previously the excise duty on these drinks was 10%. The removal in the 2013 budget is meant to grow the beverage sector and contribute to the creation of employment.

#### **5.1.7 SLEEPERS, LOCOMOTIVES AND CARRIAGES, ELECTRICAL SIGNALING AND SAFETY OR TRAFFIC CONTROL EQUIPMENT FOR RAILWAYS AND TRAMWAYS**

#### **5.1.8 ALL FLOATING WATER VESSELS**

This includes refrigerated fishing vessels, canoes, cruise and ferry boats, dredges and pontoons.





## "BENEFITS TO TOURISM FOR INVESTING IN PREPARATION FOR THE 2013 UN WORLD TOURISM ORGANISATION CONFERENCE"

### 5.1.9 MOTORCYCLES AND AMBULANCES

The removal of the 15% duty previously levied on these vehicles aims to improve access to health care through enhancing transportation of patients to referral health facilities and mobile health care in rural areas.

### 5.1.10 PACEMAKERS, BREATHING MASKS AND MOTOR VEHICLES FOR PER- SONS WITH DISABILITIES

This is as provided for in the Persons with Disabilities Act. No. 6 of 2012.

### 5.1.11. CHARCOAL DRAWING STICKS, PALLETE KNOVES, MIXERS, MICROPHONES AND MAGNETIC TAPE USED IN THE VISUAL ARTS INDUSTRY

### 5.1.12 NEW AND RETREADED PNEUMATIC TYRES

### 5.1.13 DUTY ON PETROLEUM JELLY FOR SKINCARE

Previously the excise duty was 20%.

### 5.2 SUSPENSION OF DUTY ON SPORTS EQUIPMENT FOR A PERIOD OF THREE YEARS UP TO 31<sup>ST</sup> DECEMBER 2016

The government wishes to encourage private sector participation in sports development.

### 5.3 SUSPENSION OF DUTY ON SELECTED NEW MOTOR VEHICLES AND GOODS IN THE TOURISM SECTOR

(This measure is effective from midnight on 12th October 2012)

Customs and excise duty will be suspended on new vehicles for tourism enterprises which offer transport services and on new equipment for refurbishment and catering facilities for licensed tourism enterprises.

### 5.4 US\$1,000 TAX REBATE ON ACCOMPANIED & UNACCOMPANIED IMPORTED PERSONAL EFFECTS.

### 5.5 15% INCREASE ON SELECTED PRODUCTS USED IN THE MANUFACTURE OF ROOFING SHEETS

Flat rolled products of iron or non-alloy steel not clad, plated or coated used for roofing sheets, which were previously zero rated will now be subject to 15% duty.

### 5.6 INCREASE FROM ZERO TO 25% ON IRON OR NON-ALLOY STEEL FLAT ROLLED PRODUCTS

This measure applies to products which are not clad, plated or coated excluding those coated with tin and lead.



## "PROMOTING EFFICIENCY IN TAX ADMINISTRATION"

### **5.7 INCREASE OF DUTY FROM ZERO TO 15% ON MULTIPLE OR CABLED YARN (KNITTING WOOLS) OF SYNTHETIC FIBRES NOT FOR RETAIL USE**

With this measure the government hopes to stimulate the manufacture of retail products in the textile industry.

### **HOUSEKEEPING MEASURES – CUSTOMS & EXCISE**

#### **5.8 BORDER POSTS**

Mulekatembo, Chile, Mwase, Khondwelani and Sindamisale will be appointed as customs ports. Solwezi and Mwinilunga will be appointed as Custom Houses. Nakonde border post will be allowed to operate 24 hours.

#### **5.9 LOCALLY MANUFACTURED EQUIPMENT**

The Customs and Excise Regulations to exclude locally manufactured assembled or sourced equipment and machinery from qualifying for rebate, refund or remission of duty under the ZDA incentives in order to promote local industries.

#### **5.10 WEIGHBRIDGE REPORTS**

Regulation 31 will be amended to delete the provision to provide for one weigh bridge report and also to require the declaration of any exports from a mine so as to address misclassification.

### **5.11 APPROVED ORGANISATIONS PROVIDING DEVELOPMENT ASSISTANCE TO GOVERNMENT**

The list of approved organisations as per the Third Schedule will be updated.

In addition clarity on the treatment of goods imported by a contractor contracted by the government to carry out donor funded projects will be provided. This will ensure that these projects enjoy rebates, refunds and remission on importations of goods and services.

### **5.12 ZDA INCENTIVES FOR MACHINES & EQUIPMENT**

This amendment will align the Customs & Excise principle regulations with the ZDA Act, and is exclusive to incentives for machines and equipment.

### **5.13 SIMPLIFIED TRADE REGIME**

The processing fee for Simplified Trade Regime (STR) will be revised from 278 fee units to 30 fee units.

### **5.14 ZDA INCENTIVES**

The fourth schedule of the Customs and Excise Regulations to include all business enterprises and industrial parks that have accessed incentives through ZDA.



**“THE BENEFITS OF  
GROWTH TO BE FELT  
TANGIBLY BY ALL  
ZAMBIANS”**

#### **5.15 COPPER CONCENTRATE DUTY REMISSION**

Statutory Instrument No. 69 of 2008, Customs and Excise copper concentrate export duty remission regulations will be revoked. This affects copper ores concentrates, precipitated copper and unrefined copper.

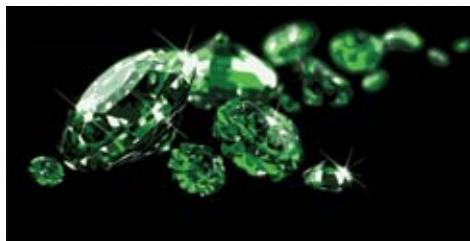
#### **5.16 PUBLIC BENEFIT ORGANISATIONS (PBOs)**

The legislation relating to the rebate scheme for PBOs will be updated to provide for a new definition of “Benefit of the Public”.

#### **5.17 CROSS CUTTING MEASURES**

The Income Tax Act, Value Added Tax Act, Customs Excise Act and the Zambia Development Agency (ZDA) Act are to be amended to provide for the non-application of the tax incentives where a business enterprise fails to fulfill its employment creation pledge.





## ► 6.0 PROPERTY TRANSFER TAX (PTT)

### 6.1 THE TRANSFER OR SALE OF A MINING RIGHT

The transfer or sale of a mining right granted under the Mines and Minerals Development Act will be subject to PTT at 10%.

In addition the PTT Act will be amended to provide for a realised value on the transfer of a mining right on which to charge the PTT. The Mines and Minerals Development Act will also be amended to ensure that PTT has been paid before the transfer is completed. To this end a Tax Clearance Certificate will be required.

### 6.2 GROUPS OF COMPANIES

The PTT Act will be amended to provide clarity on the definition of a group of companies in relation to internal group re-organizations.



## ► 7.0 INCOME TAX AMENDMENTS IN THE MINING SECTOR

### 7.1 CAPITAL ALLOWANCES

Capital allowances in the mining sector will be reduced from 100% to 25%. In addition the capital allowance claims will only be available as deductions at the time when the assets have been put into use. This will apply to claims on mining equipment, plant, machinery and other such capital expenditure.



### 7.2 TRANSFER PRICING ON INTEREST PAYMENTS

Interest payments made by mining companies between related parties will be subject to transfer pricing rules as well as the current thin capitalisation rules. This will restrict the amount of interest a mining company can deduct for tax purposes where the rate of interest charged is not at arm's length.

The information contained in this document and the enclosed bookmark is based on the Budget Address presented by the Minister of Finance and National Planning, Honorable Alexander B Chikwanda MP. This document provides an overview of the announcements made in the speech and information provided by the Zambia Revenue Authority. Whilst every effort has been made to ensure its accuracy we are unable to accept responsibility for errors and omissions. It should be noted that the measures as introduced by the Budget Address are subject to Parliamentary approval. No financial decisions should be made based solely on the information contained herewith and no liability will be accepted for decisions based on its contents without further consultation with an official representative of BDO Zambia Tax Limited.

# CONTACT US AT

## **BDO Lusaka**

Counting House Square  
Thabo Mbeki Road  
PO Box 35139  
Lusaka, Zambia

Tel: +260 211 252 836/909

Fax: +260 211 254 623

[tax@bdo.co.zm](mailto:tax@bdo.co.zm)

[www.bdo.co.zm](http://www.bdo.co.zm)

## **BDO Livingstone**

21 Obote Avenue  
PO Box 60014  
Livingstone  
Zambia

Tel: +260 213 322 828

Fax: +260 213 332 929

[bdolivingstone@zamnet.zm](mailto:bdolivingstone@zamnet.zm)

[www.bdo.co.zm](http://www.bdo.co.zm)

BDO Zambia Tax Limited is affiliated to BDO Southern African Coordination (Pty) Ltd, a South African company, which is a member of BDO International Limited, a UK company limited by guarantee.

BDO is the brand name for the BDO International network and for each of the BDO member firms.